

Myths, Facts and Solutions



This presentation focuses on several themes that we've categorized as "myths" regarding hospital costs and Medicare program payments.

As we'll demonstrate, the facts are that...

- ✓ The hospital share of health care spending is declining.
- ✓ Factors unique to providing advanced patient care drive hospital expenses.
- ✓ Medicare program underpayments are causing dramatic increases in health insurance premiums.

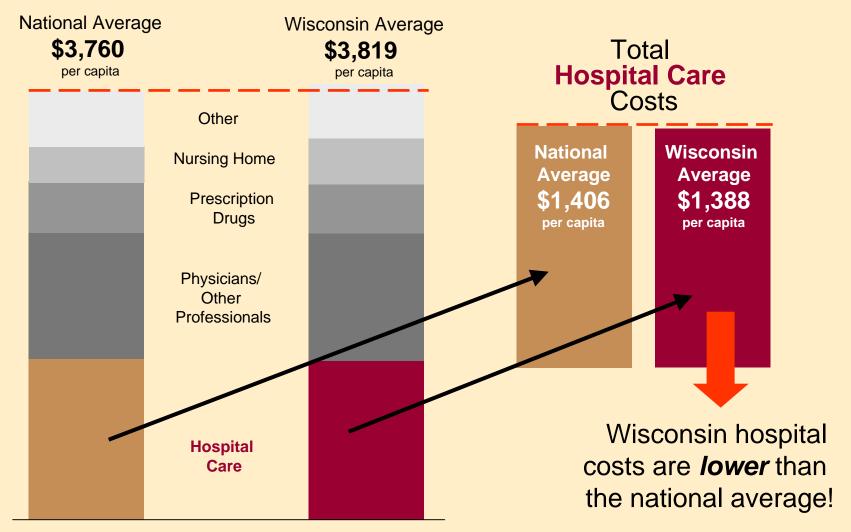
Myth:

Health care costs in Wisconsin are increasing at dramatic rates and are higher than in the rest of the nation.

Fact: The average health care cost for Wisconsin citizens in 1998 (latest data available) was \$3,819, close to the national average of \$3,760.

- ✓ Hospital costs per capita were \$1,388 in Wisconsin, actually below the US average \$1,406.
- ✓ The average annual increase in Wisconsin hospital costs has been 5.7%, below the average for overall healthcare expense growth of 6.2%
- ✓ Hospital costs as a percentage of total health care spending are *lower* today than in 1993.

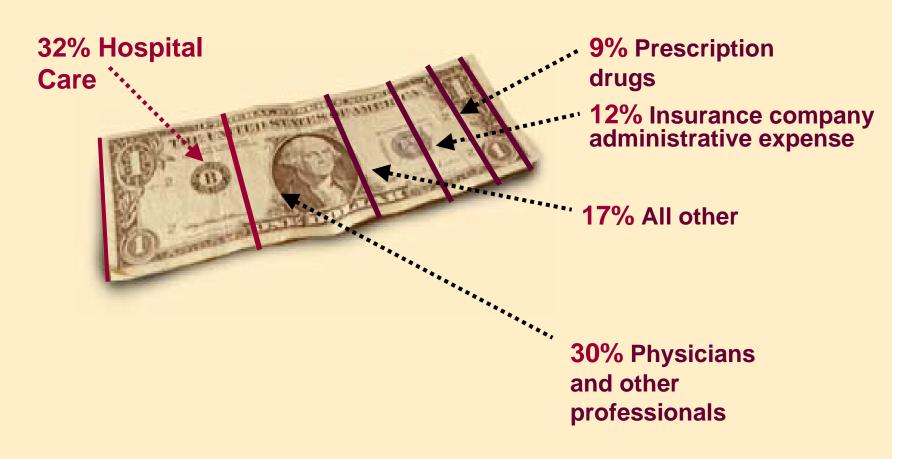
#### **Total Health Care Costs**



Prepared by: Wisconsin Health and Hospital Association, 2002

Source: CMS National Health Expenditures - 1998 (latest WI data available for all providers)

## How Wisconsin health insurance premium dollars are spent



Prepared by: Wisconsin Health and Hospital Association, 2002 Source: 1998 CMS data for Wisconsin – latest year available for all components of healthcare costs Myth: Hospital expenses should not be increasing at over 5% per year – twice the overall inflation rate.

Fact: Many cost factors are unique to hospitals.

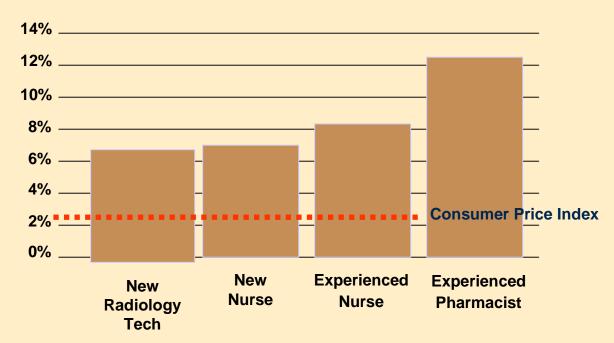
- ✓ ADVANCES IN PATIENT CARE Advances in medical treatments and technologies mean higher survival rates and safer, more convenient hospital services. These advances are costly to fund.
- ✓ WORKFORCE SHORTAGES An inadequate supply of health care professionals is requiring hospitals to pay higher salaries to attract and retain staff. These factors are requiring hospitals to pay higher salary levels to attract qualified staff.
- ✓ GOVERNMENT UNDERFUNDING The Medicare and Medicaid programs DRAMATICALLY underpay their fair share of hospital expenses, forcing hospitals to shift costs to private payers.

## Hospitals are consistently delivering higher quality, life-enhancing services – and it's not inexpensive to do.

#### Real life examples:

- ✓ The American Red Cross recently doubled its blood charges to hospitals.
- ✓ A recently enhanced surgical device, called a stent, will significantly reduce complications from heart surgery, but is triple the cost of existing stents.
- ✓ tPA is a hospital medication that is administered in the ER to heart attack patients. In the past, many of these patients died - now lives are saved - at a cost of \$2,000 for each injection.

## Workforce Shortages are Leading to Significant Increases in Hospital costs



Labor costs account for more than 50% of hospital spending.

Myth: Medicare payment updates that are at or below the rate of inflation save taxpayers money.

Fact: Hospitals MUST provide services that are required, but are then forced to shift unreimbursed costs to commercial payers.

- ✓ If these underpayments were not shifted, then hospitals would either go out of business, or they would be unable to provide the quality of services we expect to receive.
- ✓ Commercial payers are picking up the difference – indirectly becoming tax collectors!

#### The Big Fib

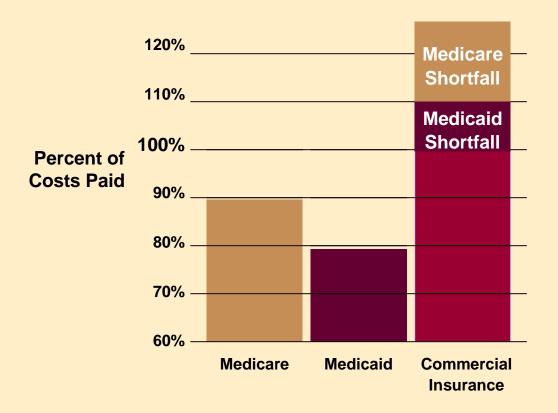
"I know, let's tell Seniors that they can get all the healthcare they need, and tell the taxpayers they don't have to pay for it."



# Fact: Patients with the Same Conditions Require the Same Resources to Provide Care – Whether They are Medicare Patients or Not!

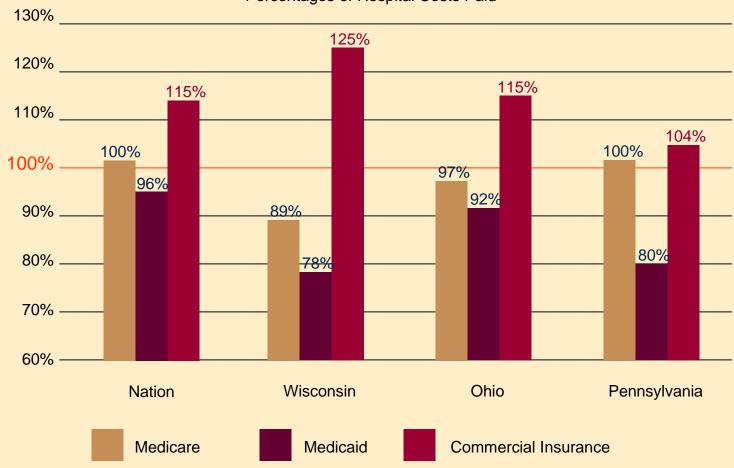
- ✓ They require the same number of nurses to provide the care
- ✓ Those nurses do not get paid less when they are providing care for Medicare patients
- ✓ Hospitals do not use obsolete diagnostic equipment on Medicare patients
- ✓ No hospital has a "Medicare floor" where Medicare patients stay during their hospitalization

Inadequate Government Payments Lead to Higher Insurance Rates



#### Inadequate Government Payments Lead to Higher Insurance Rates

Percentages of Hospital Costs Paid

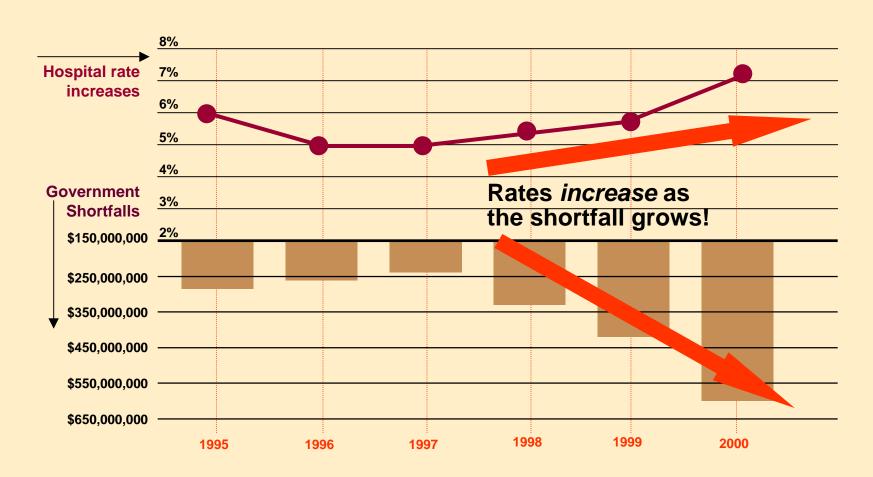


Prepared by: Wisconsin Health and Hospital Association, 2002

Source: The Lewin Group analysis of the AHA Annual Survey - 1998

#### **A Very Close Relationship**

#### **Inadequate Government Payments Mean Higher Hospital Rate Increases**



Prepared by: Wisconsin Health and Hospital Association, 2002

Source: Wisconsin Bureau of Health Information; WHA Analysis

## **Employers Speak Out on Inadequate Government Payments**

"Government underfunding of its health care programs is essentially a hidden tax that artificially inflates price and forces employers to pay twice for health care."

- Wisconsin Manufacturers & Commerce

## Myth: Hospitals in every state suffer equally from inadequate government payments.

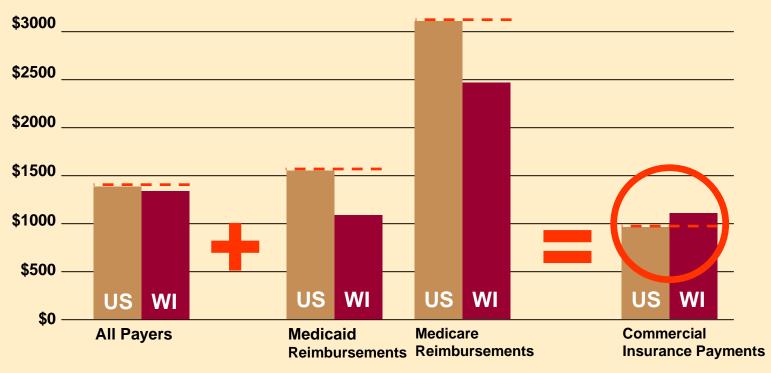
Fact: Wisconsin is a national "leader" in public payment shortfalls.

- ✓ Wisconsin hospitals rank 45th of all states in Medicare reimbursement.
- ✓ Losses from the Medicare program now total \$450 million annually.

## Fact: Wisconsin citizens and employers are being shortchanged.

- ✓ Wisconsin taxpayers pay the same federal taxes and higher state taxes compared to the rest of the country.
- ✓ Yet, Medicare and Medicaid payments for hospitals are *lower than* the rest of the country.
- ✓ This means that we are being shortchanged twice:
  - Fewer federal dollars flow back to Wisconsin, and
  - Insurance premiums are driven higher than they need to be.

#### Inadequate Government Payments Lead to Higher Insurance Rates



Wisconsin hospital costs start out below the average, but... ...due to inadequate government payments...

...insurance rates end up higher, due to cost shifting.

#### **Eliminate Hidden Taxes**

✓ Medicare and Medicaid payments for Wisconsin hospitals must be brought into line with the cost of providing care to their patients to eliminate the "hidden tax" on your health insurance premiums.

# Medicare Payment Inequities Part 2

- √ How do They Happen
- √ Two Major Examples



#### Inequities in Medicare Payment Methods – How do They Happen

- ✓ Politically motivated gerrymandering designed solely to maximize receipt of federal dollars
- ✓ Poorly understood and bureaucratically manipulated payment formulas
- ✓ Reliance on old data that fails to reflect changes in health care delivery

#### Inequities in Medicare Payment Methods – Two Major Examples

✓ Application of the Wage Index

√ Higher Base Rate for Large Metro Areas

#### **Issue #1: The Medicare Wage Index**

- ✓ Is meant to provide for geographic cost differences around the country
- √ Uses relative wages as indexes to adjust DRG payments
- ✓ Assumes that wage costs amount to 71% of hospital costs

# The Wage How it Works Index

	Hospital 1		Hospital 2	
	Labor- related	Non Labor- related	Labor- related	Non Labor- related
National Standardized Amount	\$2,840	\$1,160	\$2,840	\$1,160
Wage Index Adjustment	1.200	Not Applicable	0.800	Not Applicable
Wage-adjusted	\$3,408	\$1,160	\$2,272	\$1,160
Combined	\$4,568		\$3,432	

The Wage Index

## What if We Used the Actual Percent of Labor in Hospital Expenses?

	Hospital 1		Hospital 2	
	Labor- related	Non Labor- related	Labor- related	Non Labor- related
National Standardized Amount	\$2,000	\$2,000	\$2,000	\$2,000
Wage Index Adjustment	1.200	Not Applicable	0.800	Not Applicable
Wage-adjusted	\$2,400	\$2,000	\$1,600	\$2,000
Combined	\$4,400		\$3,600	

The

## Wage Let's Compare the Results Index

	Payments		
	Hospital 1	Hospital 2	
Using Current 71% Portion	\$4,568	\$3,432	
Using 50% as Labor Portion	\$4,400	\$3,600	
Difference	Minus \$168	Plus \$168	

### **Issue #2: Higher Base Rate for Large Metro Areas**

- ✓ Metro areas with populations of at least 1 million receive a 1.6% higher DRG base rate
- ✓ Stated reason is higher costs
- ✓ Wage index meant to cover higher costs
- ✓ Therefore, hospitals in large metro areas are paid twice for cost differences

#### **The Bottom Line**

✓ Medicare payment inequities must be eliminated so that Wisconsin taxpayers receive the same benefits as others around the nation.